

## Message from the CEO



From a foundation of respect for humanity and the environment based on the corporate philosophy of *kyosei*, staying focused on quicker implementation of its strategic transformation, Canon is working to be a source of innovation to help address societal issues.

### Canon's Strategic Transformation

Human prosperity is the result of economic development and technological innovation. In recent years, the twin forces of globalization and digitalization have elevated lifestyles to new levels of convenience and affluence. However, the flipside of this is the emergence of several global societal issues that grow in severity each year, including economic inequality, resource depletion and environmental issues. Innovation is needed to create solutions for these varied and complex societal issues.

Against the backdrop of these societal demands, we are looking to broaden Canon's business

operations to include the domains of Consumer, Office, Industrial, and Social (relating to human safety and security).

Since Canon's foundation in 1937, business has grown consistently over time as we utilized innovation to address societal needs, based on the Enterprising Spirit we inherited as part of our corporate DNA. In Canon's early years, we enriched the lives of people with cameras. In Japan's period of rapid economic growth, we increased office productivity using copiers and supported growth in the electronics industry with the development of semiconductor production equipment. We have also helped create the information society with a range of

digital products based on advanced IT.

Looking ahead, alongside these businesses, we aim to supply value-added products and services to help realize a society in which people around the world can live in safety and comfort.

With this aim, in line with the basic policy of “embracing the challenge of new growth through a grand strategic transformation,” under Phase V of the Excellent Global Corporation Plan, a five-year business initiative that we initiated in 2016, we have pursued an active M&A strategy and transformed Canon’s business portfolio.

We continue to reinforce and expand operations in four areas of business: healthcare, to support human health by helping to develop advanced treatments that use the latest technology; commercial printing, notably low-volume, fast-turnaround printing jobs for promotional catalogs, direct mail and other printed materials; industrial equipment to support technical innovation in areas such as IoT, AI and robotics; and network cameras, which help to address safety needs.



Healthcare IT of Canon Medical Systems

## Key Challenges for 2020

We experienced a challenging year at Canon in 2019 due to harsher business conditions. Global economic growth was sluggish due to Sino-US trade friction and the impact of slower Chinese economic growth. Demand for our cameras and printers continued to fall amid further adoption of smartphones, and our industrial equipment business experienced a protracted downturn in investment related to semiconductors and small- and medium-sized display panels.

Global conditions are likely to stay uncertain in 2020, the final year of Phase V of the Excellent Global Corporation Plan. We expect further uncertainty caused by Sino-US trade friction, Britain leaving the EU, and geopolitical tensions in the Middle East, among other factors.

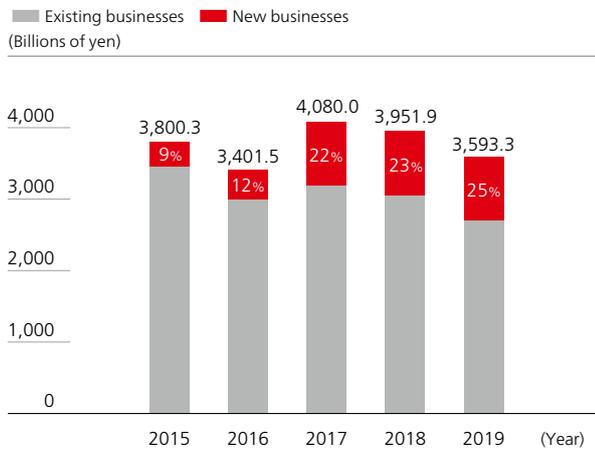
In line with our basic policy of “speeding up and completing the grand strategic transformation,” we are focusing on four key challenges so we finish Phase V with a well-constructed, robust business platform.

The first challenge is “strengthening our existing businesses,” such as cameras and printers. Besides seeking to maintain and grow market share by continually reinforcing the appeal of Canon products, we also plan to develop advanced solutions through partnerships with other companies.

The second is “expanding our new businesses.” Sales generated by the four businesses of healthcare, commercial printing, industrial equipment, and network cameras already account for 25% of the consolidated total. We are targeting rapid growth through strategic M&A and a program to realize significant cuts in production costs. We are also utilizing open innovation platforms to promote active collaboration with universities and other research institutions worldwide. Two initiatives from our new businesses that we aim to commercialize in the near future are the Free Viewpoint Video System and the space-related operations of Canon Electronics, a group company.

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### Total net sales and new business composition



The third is “pushing structural reorganization.” The aim is to reallocate human and other resources from existing businesses, as appropriate, to new areas of business with increased growth potential.

The fourth is “boosting productivity.” By introducing IoT, AI and other cutting-edge technologies, we plan to use more automated assembly for high mix, short-run production, while also extending automation to include processes such as testing and inspection. At the same time, we will strive to keep production in-house wherever possible, and not simply for core components.

These kinds of initiatives will help us to address societal issues and add value using innovation.

### Towards the Realization of *Kyosei*

Although we are in the midst of a grand transformation, some things at Canon are and will remain unchanged—such as our people-first management philosophy.

Canon’s first president, Takeshi Mitarai, set out the principle of “creating a company whose employees could live full and happy lives.” Besides instituting people-oriented remuneration and HR systems, we have cultivated a dynamic culture based on a code of conduct expressed in the *San-ji Spirit* (“Three Selves”: self-motivation, self-management, and self-awareness).

In 1988, the company’s 51st anniversary, our people-first management principle evolved into the globally-minded corporate philosophy of *kyosei*. *Kyosei* is the aspiration to create a society in which all people, regardless of race, language or culture, harmoniously live and work together for the common good into the future. Based on this philosophy, we are developing various initiatives such as promotion of diversity to ensure working environments across the Canon Group enable individual employees to find personal growth as the business expands. At the same time, while seeking to build good relationships with suppliers, customers and our other stakeholders, as well as communities at local, regional, and national levels, we are striving to address wide-ranging societal issues through incremental improvements to CSR initiatives across the supply chain.

At Canon, we have always taken a progressive stance to building a harmonious relationship with the natural environment. We were a global pioneer in 1990 with our introduction of systems to collect and recycle toner cartridges. Today, it is no exaggeration to say that humanity is facing an environmental crisis. Companies are working to address environmental issues as a priority, and we see this mission as part of Canon’s responsibility as a global enterprise. We will continue to find ways to address these issues over the entire product lifecycle.



Canon Automated Recycling System for Toner Cartridges (CARS-T)

At the same time, in developing global business, we have sought to manage our operations in line with local customs and cultural norms to help develop alongside countries and regions in which we operate while also seeking to address societal issues. We recycle some of the profits we gain from our business activities into various social contribution activities at the national and local level. This includes humanitarian and disaster relief, educational grant programs and sponsorship of arts, cultural, and sporting events.



Canon India carries out multifaceted support activities through the 4E's Project

Our goal of realizing *kyosei* is also aligned with the Sustainable Development Goals (SDGs) that the United Nations adopted in 2015.

The concept of *kyosei* is the foundation for our three materiality themes of “Creating New Value and Solving Social Issues,” “Protecting and Conserving the Environment” and “Responding to People and Society as a Good Corporate Citizen.” Going forward, as we maintain close communication with customers and stakeholders, we at Canon will put all our efforts into helping to realize a better society by addressing various issues facing the world. To that end, we will reinforce our focus on achieving a grand strategic transformation while also seeking to stimulate growth and create new value and striving to make a lasting contribution through technology, so that Canon may remain a company that is admired and respected by people worldwide.

In closing, I humbly ask for your continued support.

**Fujio Mitarai**  
Chairman & CEO  
Canon Inc.